

PELLA COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008



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**PELLA COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**

(Before September, 2007 Election)

Ivan Vos	President	2008
Myron Linn	Vice President	2009
Joan Corbin	Board Member	2007
Marv Van Wyk	Board Member	2007
Laurie Fetterman	Board Member	2008

**Board of Education**

(After September, 2007 Election)

Ivan Vos	President	2008
Myron Linn	Vice President	2009
Joan Corbin	Board Member	2010
Marv Van Wyk	Board Member	2010
Jennifer Palmer	Board Member	2008

**School Officials**

Mark Wittmer	Superintendent	2008
Jon E. Miller	District Secretary/Treasurer	2008
Ron Peeler	Attorney	Indefinite



### Independent Auditor's Report

To the Board of Education of  
Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 14 and 46 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 31, 2008

# Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

## Financial Highlights

- The September, 2006 enrollment count showed an increase of 91.3 students. This resulted in new money of \$917,587 for 2007-2008, which was an increase of 8.52%.
- General Fund revenues for FY08 were \$16,933,138 compared to \$15,513,431 for FY07. This was an increase of \$1,419,707, or 9.15%. Additional revenues included a first time levy of \$152,000 for At-Risk services.
- General Fund expenditures for FY08 were \$17,106,773 compared to \$15,615,853 for FY07. This was an increase of \$1,490,920, or 9.5%. Additional expenditures included a 5.0% total compensation package to staff members. We also opened a new elementary building and increased our instructional staff by 11.88 FTE. Support staff was also increased to handle the grade re-alignment of the buildings as well as the increased square footage of the new building compared to the old.
- The 11.88 FTE increase of instructional staff included two additional elementary sections, three additional counseling/at-risk positions, a reading plus instructor, an elementary vocal music instructor, additional math and science instruction at the high school, additional exploratory instruction at the middle school, a half-time special education coordinator, increased time for art instruction and additional special education staffing for our special needs students. Support staff increases included additional teacher associate time, additional nursing time and additional custodial time.
- The District's General Fund undesignated, unreserved fund balance for FY08 was \$1,270,509 compared to \$1,478,790 for FY07. This is a decrease of \$208,281. This decrease was expected as we knew our special education deficit would be increasing.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 9.5% in FY07 to 7.5% in FY08. The District attempts to target a solvency ratio of 5% to 10%.
- General Fund interest income for FY08 was \$121,450 compared to \$207,302 for FY07 and \$168,247 for FY06.
- The District will end the FY08 year with a significant special education deficit. The exact amount is not yet known, as programming problems at the state level have pushed back the completion deadline for the Special Education Supplement.
- The District has now completed three significant construction projects. A new \$10 million dollar elementary school was opened for the 2007-2008 school year. An addition of \$872,000 to the High School has been completed and a \$1,210,800 addition to Jefferson Elementary is substantially complete.

- A seven year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate
2007-2008	478,010,818	72,596,699	13.88073
2006-2007	470,138,907	68,740,308	13.41259
2005-2006	463,535,140	66,071,157	13.52362
2004-2005	458,097,534	65,307,399	13.57896
2003-2004	477,138,783	60,053,193	13.31915
2002-2003	470,594,593	46,139,452	13.15690
2001-2002	442,301,775	31,155,430	13.66552

The assessed valuation for the 2004-2005 school year dropped due to the state imposed agriculture rollback.

## Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for fiduciary funds provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.



Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

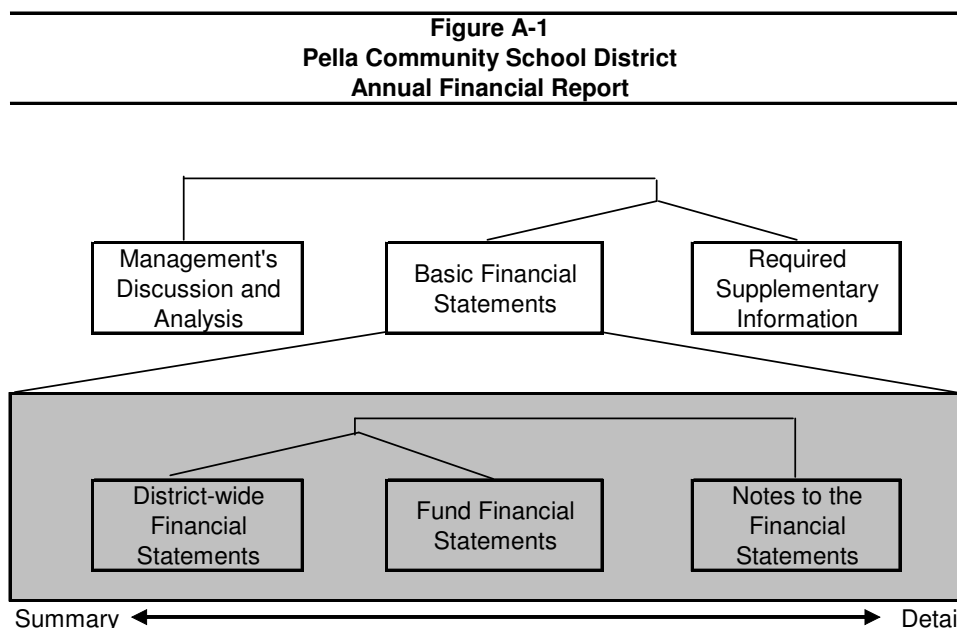


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required Financial Statements	> Statement of net assets > Statement of activities	> Balance Sheet > Statement of revenues, expenditures, and changes in fund balances	> Statement of net assets > Statement of revenues, expenses and changes in fund net assets > Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

**Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

**Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to 2007.

<b>Figure A-3</b>							
<b>Condensed Statement of Net Assets</b>							
	<b>Governmental Activities</b>		<b>Business type activities</b>		<b>Total</b>		<b>Total</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>Change</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2007-2008</b>
Current and other assets	\$ 13,729,591	14,720,996	147,034	229,243	13,876,625	14,950,239	-7.2%
Capital assets	31,244,444	29,101,914	284,572	133,912	31,529,016	29,235,826	7.8%
Total assets	44,974,035	43,822,910	431,606	363,155	45,405,641	44,186,065	2.8%
Long-term liabilities	17,357,041	18,464,917	-	-	17,357,041	18,464,917	-6.0%
Other liabilities	9,497,314	8,915,717	17,910	13,892	9,515,224	8,929,609	6.6%
Total liabilities	26,854,355	27,380,634	17,910	13,892	26,872,265	27,394,526	-1.9%
Net assets:							
Invested in capital assets, net of related debt	12,730,005	12,503,562	284,572	133,912	13,014,577	12,637,474	3.0%
Restricted	2,501,589	2,423,553	-	-	2,501,589	2,423,553	3.2%
Unrestricted	2,888,086	1,515,161	129,124	215,351	3,017,210	1,730,512	74.4%
Total net assets	\$ 18,119,680	16,442,276	413,696	349,263	18,533,376	16,791,539	10.4%

The District's combined net assets increased by 10.4% from \$16,791,539 to \$18,533,376.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2008.

<b>Figure A-4</b>						
<b>Changes in Net Assets</b>						
	<b>Governmental activities</b>		<b>Business type activities</b>		<b>Total District</b>	
	<b>Year ended June 30,</b>		<b>Year ended June 30,</b>		<b>Year ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,111,495	1,211,132	685,437	686,208	1,796,932	1,897,340
Operating grants and contributions	2,398,632	2,088,827	299,092	242,178	2,697,724	2,331,005
General Revenues:						
Local taxes	8,759,431	8,331,502	-	-	8,759,431	8,331,502
State grants	8,398,644	7,539,314	-	-	8,398,644	7,539,314
Investment earnings	194,730	513,545	6,253	4,291	200,983	517,836
Other	658,017	406,306	-	-	658,017	406,306
Total revenues	21,520,949	20,090,626	990,782	932,677	22,511,731	21,023,303
<b>Expenses:</b>						
Program expenses:						
Instruction	12,302,875	11,243,927	-	-	12,302,875	11,243,927
Support services - students & staff	1,212,773	1,177,135	-	-	1,212,773	1,177,135
Support services - administration	1,500,206	1,464,212	-	-	1,500,206	1,464,212
Operations and maintenance	1,877,102	1,779,916	-	-	1,877,102	1,779,916
Transportation	1,168,169	1,371,086	-	-	1,168,169	1,371,086
Non-instructional activities	1,729,573	1,825,010	979,196	913,916	2,708,769	2,738,926
Total expenses	19,790,698	18,861,286	979,196	913,916	20,769,894	19,775,202
Excess of revenues over expenses before transfers	1,730,251	1,229,340	11,586	18,761	1,741,837	1,248,101
Transfers	(52,847)	9,782	52,847	(9,782)	-	-
Change in net assets	\$ 1,677,404	1,239,122	64,433	8,979	1,741,837	1,248,101

## Governmental Activities

Property tax and unrestricted state grants account for 73.8 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 91.3 percent of the total expenses.

Revenues for governmental activities were \$21,468,102 and expenses were \$19,790,698, resulting in a net asset increase of \$1,677,404.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b>		
<b>Total and Net Cost of Governmental Activities</b>		
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instruction	\$12,302,875	9,712,287
Support services	5,758,250	5,571,557
Non-instructional programs	30,435	30,435
Other expenses	1,699,138	966,292
Totals	\$19,790,698	16,280,571

- The cost financed by users of the District's programs was \$1,111,495. A one-time capital contribution transfer-out of \$52,847 was made for foodservice equipment in the new elementary building.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,398,632.
- The net cost of governmental activities was financed with \$7,453,251 in property taxes, \$8,398,644 in state foundation aid, \$1,306,180 in local option sales and services tax, \$194,730 in interest income and \$658,017 in other income.

## **Business Type Activities**

Revenues of the District's business type activities were \$1,043,629 and expenses were \$979,196. The District's business type activities include Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 94.3 percent of the business type activity. Revenues of these activities were comprised of \$685,437 in charges for service, \$299,092 for federal and state reimbursements and investment income of \$6,253. A one-time capital contribution transfer-in of \$52,847 was received for foodservice equipment in the new elementary building. The net assets for business type activities increased by \$64,433.

## **Financial Analysis of the District's Funds**

As previously noted, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$4,126,888. This compares to \$5,747,393 last year, a decrease of \$1,620,505. This decrease is due to the spending down of our Capital Projects Fund as construction of our new elementary building, along with additions to our High School and Jefferson Elementary, has been completed.

## **Governmental Fund Highlights**

- The General Fund balance decreased from \$1,778,158 to \$1,604,523, a decrease of \$173,635.
- The Activity Fund balance increased from \$144,555 to \$150,730, an increase of \$6,175.
- The Management Fund balance increased \$8,553, from \$134,879 to \$143,432.
- The Physical Plant & Equipment Levy (PEEL) Fund balance increased \$87,793, from \$244,854 to \$332,647.
- The Capital Projects Fund balance decreased \$1,551,448, from \$3,351,838 to \$1,800,390. This decrease is attributed to the completion of construction of our new elementary building, as well as additions to our High School and Jefferson Elementary. Previously sold bonds have now been spent. The School Infrastructure Local Option Sales Tax generated \$1,306,180. We receive money from Jasper, Mahaska and Marion Counties. Interest income was \$125,338.
- The Debt Service Fund increased \$2,057, from \$93,109 to \$95,166. Property taxes were levied to cover the principle and interest payments of our four outstanding bond issues. School Infrastructure Local Option Sales Taxes are used to maintain a debt service levy of \$2.24/\$1,000 or less, which was the amount in place when our most recent bond issue was passed.

## Proprietary Fund Highlights

The District's Proprietary Funds include the School Nutrition Fund and Families First.

- The School Nutrition Fund net assets increased \$58,834, from \$345,428 to \$404,262.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund increased \$5,599, from \$3,835 to \$9,434.

## Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 46 and 47.

## Legal Budgetary Highlights

The District's total actual receipts were \$392,354 more than the total budgeted receipts, a variance of 1.8%. Total expenditures were \$1,478,350 less than the amended budget, a variance of 5.8%.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2008, the District had invested \$31,529,016, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,234,687.

Figure A-6 Capital Assets, net of Depreciation								
	Governmental Activities		Business Type activities		Total School District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007	2007-2008	
Land	\$ 1,690,900	1,691,900	-	-	1,690,900	1,691,900	-0.1%	
Construction in progress	23,215	10,817,147	-	-	23,215	10,817,147	-99.8%	
Buildings	25,534,727	13,433,853	-	-	25,534,727	13,433,853	90.1%	
Improvements other than buildings	1,028,257	960,741	-	-	1,028,257	960,741	7.0%	
Furniture and equipment	2,967,345	2,198,273	284,572	133,913	3,251,917	2,332,186	39.4%	
Totals	\$ 31,244,444	29,101,914	284,572	133,913	31,529,016	29,235,827	7.8%	

The original cost of the District's capital assets was \$47,941,788. Governmental funds account for \$46,980,533 with the remaining \$961,255 in the School Nutrition Fund.

The District had construction in progress of \$23,215 at Lincoln Elementary at the end of FY08. Construction was completed at Madison Elementary, Jefferson Elementary and the High School during FY08. Other major improvements this year included completion of the roof replacement at Lincoln Elementary, re-surfacing the asphalt parking lot at Lincoln Elementary, new gym lighting in all of our buildings, asbestos removal at the High School with subsequent installation of base and tile, heat pumps and compressor installed at the Middle School, a dock leveler at Madison Elementary, lighting retrofit at Jefferson Elementary, fresh air hood at High School with compressor, condenser and controllers, concrete work throughout the district, beginning of the design phase to concrete the lower High School parking lot and continued technology upgrades at all of our buildings.

## Long-Term Debt

At June 30, 2008, the District had \$17,357,041 in general obligation bonds and other long-term debt. This is a decrease of \$1,107,858 from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

<b>Figure A-7</b>			
<b>Outstanding Long-Term Obligations</b>			
	<b>June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
General obligation bonds	\$ 15,805,000	16,810,000	-6.0%
Revenue bonds	1,120,000	1,285,000	-12.8%
Early retirement	432,041	369,899	16.8%
Totals	<u>\$ 17,357,041</u>	<u>18,464,899</u>	<u>-6.0%</u>

The District had total outstanding bonded indebtedness at June 30, 2008 of \$15,805,000. This represents four separate bond issues. Two of these issues will be retired in FY09, one in FY13 and the most recent one in FY25. The District also had outstanding revenue bonds of \$1,120,000 at June 30, 2008 that will be retired in FY14.

The District also has a long-term debt obligation for its early retirement plan, which was \$432,041 at June 30, 2008. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund.

## Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- We have completed the first year in our new Madison Elementary building. With the installation of geothermal, we expected energy costs to be lower than what we experienced. While the heating costs were low, the electric costs were much higher than anticipated. We are trying to identify our peak demand times in order to reduce our electrical usage at those times, which should ultimately reduce our total cost.
- We have entered into a contract with Energy Services Group for professional services related to the design/engineering, project management and bid solicitation to improve our existing energy systems. The cost of this project is \$1,047,740 and will be paid from our local option sales tax money. This agreement is the culmination of two years of study and should certainly reduce our energy costs in the future.
- The District has also formed a "Green Committee" to consider ways to recycle and reduce consumption in an attempt to become more environmentally friendly. We are also in the early stages of considering wind energy as a possibility for the District.

- The District has hired an architect to develop plans for another addition at the High School. This addition will consist of two new Family Consumer Science rooms, a room for our technology coordinator, remodeling a room into an additional science room, along with other interior remodeling. The cost of this project is estimated at \$1,304,000 and will be paid from our local option sales tax money.
- We recently refinanced three existing bond issues into one. The projected savings is \$95,446.55 and the bonds will be retired in 2013.
- We now know that our September, 2008 enrollment increased by 6.4 students. These students will provide funding for the 2009-2010 school year. This enrollment growth should provide for a 4.3% increase in new money available to the district for 2009-2010.
- One item of concern is the fact that the fund equity position of our General Fund decreased from \$1,778,158 to \$1,604,523. This is a drop of \$173,635. While this decrease can be attributed primarily to our special education deficit, the district will have to address this issue in the immediate future.
- The District's transportation fleet remains in good shape overall. Each year, either two busses or one bus and a support vehicle are purchased to keep the fleet updated. The General Fund has been the source of revenue for these purchases. The dramatic price increase in gasoline and diesel fuel this past year has had a negative impact on the financial position of the district.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. Both companies seem to be performing reasonably well considering the current stressed economic conditions in this country. Pella Corporation has certainly been impacted by the decline in the housing market and has closed a plant in Story City, Iowa and one in Tuscon, Arizona. The property tax base remains solid at this point and housing starts continue, though not as strong as in the past.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.
- In last year's report, we mentioned two major developments under consideration in the Pella area. One was The Point at Red Rock and the other was Earthpark. We noted that the possibilities of those two projects were very exciting, but that city and school officials were cautiously optimistic. Both projects appear to have been abandoned for various reasons.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon E. Miller, Board Secretary / Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.



## **Basic Financial Statements**

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2008

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents			
Revenue bond reserve	\$ 175,000	-	175,000
Other	4,910,990	120,054	5,031,044
Receivables:			
Property tax:			
Delinquent	52,839	-	52,839
Succeeding year	7,814,833	-	7,814,833
Accounts	1,055	-	1,055
Due from other governments	601,672	394	602,066
Inventories	57,717	21,166	78,883
Prepaid expense	115,485	5,420	120,905
Total current assets	13,729,591	147,034	13,876,625
Noncurrent assets:			
Capital assets, nondepreciable	1,714,115	-	1,714,115
Capital assets, depreciable, net	29,530,329	284,572	29,814,901
Total noncurrent assets	31,244,444	284,572	31,529,016
<b>Total assets</b>	<b>\$ 44,974,035</b>	<b>431,606</b>	<b>45,405,641</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 364,669	1,660	366,329
Salaries and benefits payable	1,256,455	16,250	1,272,705
Accrued interest payable	61,357	-	61,357
Unearned revenue:			
Succeeding year property tax	7,814,833	-	7,814,833
General obligation bonds payable	1,055,000	-	1,055,000
Revenue bonds payable	170,000	-	170,000
Early retirement	166,746	-	166,746
Total current liabilities	10,889,060	17,910	10,906,970
Noncurrent liabilities:			
General obligation bonds payable	14,750,000	-	14,750,000
Revenue bonds payable	950,000	-	950,000
Early retirement	265,295	-	265,295
Total noncurrent liabilities	15,965,295	-	15,965,295
<b>Total liabilities</b>	<b>26,854,355</b>	<b>17,910</b>	<b>26,872,265</b>

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2008

	Governmental Activities	Business Type Activities	Total
<b>Net assets</b>			
Invested in capital assets, net of related debt	12,730,005	284,572	13,014,577
Restricted for:			
Physical plant and equipment levy	332,647	-	332,647
Other special revenue	150,730	-	150,730
Capital projects	1,625,390	-	1,625,390
Debt service	208,809	-	208,809
Purpose restricted	184,013	-	184,013
Unrestricted	2,888,086	129,124	3,017,210
<b>Total net assets</b>	<b>18,119,680</b>	<b>413,696</b>	<b>18,533,376</b>
<b>Total liabilities and net assets</b>	<b>\$ 44,974,035</b>	<b>431,606</b>	<b>45,405,641</b>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2008

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>			
Governmental activities:			
Instruction:			
Regular instruction	\$ 7,897,197	321,317	975,204
Special instruction	2,426,045	267,786	465,281
Other instruction	1,979,633	510,313	50,687
	<u>12,302,875</u>	<u>1,099,416</u>	<u>1,491,172</u>
Support Service:			
Student services	395,133	-	-
Instructional staff services	817,640	-	-
Administration services	1,500,206	-	-
Operating and maintenance of plant services	1,877,102	12,079	174,614
Transportation services	1,168,169	-	-
	<u>5,758,250</u>	<u>12,079</u>	<u>174,614</u>
Non-instructional programs	<u>30,435</u>	-	-
Other expenditures:			
Long-term debt interest	829,387	-	-
AEA flowthrough	732,846	-	732,846
Depreciation (unallocated)*	136,905	-	-
	<u>1,699,138</u>	<u>-</u>	<u>732,846</u>
Total governmental activities	19,790,698	1,111,495	2,398,632
Business type activities:			
Non-instructional programs:			
Community services	55,978	26,767	34,743
Nutrition services	923,218	658,670	264,349
Total business type activities	<u>979,196</u>	<u>685,437</u>	<u>299,092</u>
Total primary government	<u>\$ 20,769,894</u>	<u>1,796,932</u>	<u>2,697,724</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(6,600,676)	-	(6,600,676)
(1,692,978)	-	(1,692,978)
(1,418,633)	-	(1,418,633)
(9,712,287)	-	(9,712,287)
(395,133)	-	(395,133)
(817,640)	-	(817,640)
(1,500,206)	-	(1,500,206)
(1,690,409)	-	(1,690,409)
(1,168,169)	-	(1,168,169)
(5,571,557)	-	(5,571,557)
(30,435)	-	(30,435)
(829,387)	-	(829,387)
-	-	-
(136,905)	-	(136,905)
(966,292)	-	(966,292)
(16,280,571)	-	(16,280,571)
-	5,532	5,532
-	(199)	(199)
-	5,333	5,333
(16,280,571)	5,333	(16,275,238)

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2008

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Totals continued from previous pages</b>	<b>\$ 20,769,894</b>	<b>1,796,932</b>	<b>2,697,724</b>
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Contributions not restricted to specific programs			
Gain on sale of capital assets			
Other			
 Total general revenues			
 Transfers - capital contributions			
 Change in net assets			
 Net assets beginning of year			
 Net assets end of year			

\*This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(16,280,571)	5,333	(16,275,238)
5,729,393	-	5,729,393
1,172,913	-	1,172,913
550,945	-	550,945
1,306,180	-	1,306,180
8,398,644	-	8,398,644
194,730	6,253	200,983
79,080	-	79,080
406,978	-	406,978
171,959	-	171,959
18,010,822	6,253	18,017,075
(52,847)	52,847	-
1,677,404	64,433	1,741,837
16,442,276	349,263	16,791,539
\$ 18,119,680	413,696	18,533,376

PELLA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:					
Revenue bond reserve	\$ -	-	175,000	-	175,000
Other	2,471,160	84,201	1,501,965	853,664	4,910,990
Receivables:					
Property tax:					
Current year delinquent	33,709	10,948	-	8,182	52,839
Succeeding year	5,436,771	1,292,881	-	1,085,181	7,814,833
Accounts	1,055	-	-	-	1,055
Due from other governments	478,215	17	123,425	15	601,672
Inventories	57,717	-	-	-	57,717
Prepaid expenses	115,485	-	-	-	115,485
<b>Total assets</b>	<b>\$ 8,594,112</b>	<b>1,388,047</b>	<b>1,800,390</b>	<b>1,947,042</b>	<b>13,729,591</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 297,047	-	-	67,622	364,669
Salaries and benefits payable	1,255,771	-	-	684	1,256,455
Deferred revenue:					
Succeeding year property tax	5,436,771	1,292,881	-	1,085,181	7,814,833
Early retirement payable	-	-	-	166,746	166,746
<b>Total liabilities</b>	<b>6,989,589</b>	<b>1,292,881</b>	<b>-</b>	<b>1,320,233</b>	<b>9,602,703</b>
Fund balances:					
Reserved for:					
Inventories	57,717	-	-	-	57,717
Prepaid expense	115,485	-	-	-	115,485
State grants	10,811	-	-	-	10,811
Debt service	-	95,166	175,000	-	270,166
Unreserved:					
Designated for special purposes by the Board	150,000	-	-	-	150,000
Undesignated	1,270,510	-	1,625,390	626,809	3,522,709
<b>Total fund balances</b>	<b>1,604,523</b>	<b>95,166</b>	<b>1,800,390</b>	<b>626,809</b>	<b>4,126,888</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,594,112</b>	<b>1,388,047</b>	<b>1,800,390</b>	<b>1,947,042</b>	<b>13,729,591</b>

See notes to financial statements.



PELLA COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2008

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 4,126,888
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***Amounts reported for governmental activities in the  
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	31,244,444
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(61,357)
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Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(17,190,295)</u>
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<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>\$ 18,119,680</u></u>
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See notes to financial statements.

## Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2008

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 5,304,039	1,172,913	1,306,180	976,299	8,759,431
Tuition	498,004	-	-	-	498,004
Other	314,017	1,341	125,338	601,132	1,041,828
Intermediate sources	18,785	-	-	-	18,785
State sources	10,317,345	483	-	425	10,318,253
Federal sources	477,670	-	-	-	477,670
Total revenues	16,929,860	1,174,737	1,431,518	1,577,856	21,113,971
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,245,758	-	-	230,410	7,476,168
Special instruction	2,344,069	-	-	-	2,344,069
Other instruction	1,449,992	-	-	551,700	2,001,692
	11,039,819	-	-	782,110	11,821,929
Support services:					
Student services	384,348	-	-	1,775	386,123
Instructional staff services	751,974	-	-	1,065	753,039
Administration services	1,462,219	-	-	172,411	1,634,630
Operation and maintenance of plant services	1,676,627	-	-	170,723	1,847,350
Transportation services	1,058,940	-	-	54,633	1,113,573
	5,334,108	-	-	400,607	5,734,715
Other expenditures:					
Facilities acquisition	-	-	2,556,916	292,618	2,849,534
Long-term debt:					
Principal	-	1,170,000	-	-	1,170,000
Interest	-	831,130	-	-	831,130
Fiscal charges	-	2,300	-	-	2,300
AEA flowthrough	732,846	-	-	-	732,846
	732,846	2,003,430	2,556,916	292,618	5,585,810
Total expenditures	17,106,773	2,003,430	2,556,916	1,475,335	23,142,454
Excess (deficiency) of revenues over (under) expenditures	(176,913)	(828,693)	(1,125,398)	102,521	(2,028,483)

## Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 Year ended June 30, 2008

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Other financing sources (uses):					
Operating transfers in	-	830,750	404,700	-	1,235,450
Operating transfers out	-	-	(830,750)	(404,700)	(1,235,450)
Sale of capital assets	3,278	-	-	404,700	407,978
Total other financing sources (uses)	3,278	830,750	(426,050)	-	407,978
Net change in fund balances	(173,635)	2,057	(1,551,448)	102,521	(1,620,505)
Fund balances beginning of year	1,778,158	93,109	3,351,838	524,288	5,747,393
Fund balances end of year	\$ 1,604,523	95,166	1,800,390	626,809	4,126,888

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2008

**Net change in fund balances - total governmental funds (Exhibit E)** \$ (1,620,505)

***Amounts reported for governmental activities in the  
 Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 3,378,217	
Gain on disposal of capital assets	406,978	
Proceeds from sale of capital assets	(407,978)	
Depreciation expense	<u>(1,234,687)</u>	2,142,530

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	1,170,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	4,043
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	<u>(18,664)</u>
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<b>Change in net assets of governmental activities (Exhibit B)</b>	<b><u><u>\$ 1,677,404</u></u></b>
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See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2008

	Non-major Enterprise Funds
<b>Assets</b>	
Current assets:	
Cash and investments	\$ 120,054
Due from other governments	394
Inventories	21,166
Prepaid expense	5,420
Total current assets	<u>147,034</u>
Noncurrent assets:	
Property and equipment:	
Machinery and equipment	961,255
Accumulated depreciation	<u>(676,683)</u>
Total noncurrent assets	<u>284,572</u>
<b>Total assets</b>	<u><u>\$ 431,606</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 1,660
Salaries and benefits payable	<u>16,250</u>
Total current liabilities	<u>17,910</u>
<b>Total liabilities</b>	<u>17,910</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	284,572
Unrestricted	<u>129,124</u>
<b>Total net assets</b>	<u>413,696</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 431,606</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2008

	<u>Non-major Enterprise Funds</u>
Operating revenue:	
Local sources:	
Operating revenues	<u>\$ 685,437</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	55,978
Food service operations:	
Depreciation	34,477
Other	888,741
Total operating expenses	<u>979,196</u>
Operating loss	<u>(293,759)</u>
Non-operating revenue:	
Local sources	41,389
State sources	10,363
Federal sources	253,593
Total non-operating revenue	<u>305,345</u>
Income before transfers	11,586
Capital contribution	<u>52,847</u>
Change in net assets	64,433
Net assets beginning of year	<u>349,263</u>
Net assets end of year	<u><u>\$ 413,696</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2008

	Non-major Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 658,670
Cash received from service tuition, fees and other sources	26,767
Cash payments to employees for services	(465,814)
Cash payments to suppliers for goods or services	(412,493)
Net cash used by operating activities	<u>(192,870)</u>
Cash flows from non-capital financing activities:	
Operating grants and contributions received	34,743
State grants received	10,363
Federal grants received	192,132
Net cash provided by non-capital financing activities	<u>237,238</u>
Cash flows from capital and related financing activities:	
Capital contributions	52,847
Acquisition of capital assets	(185,137)
Net cash used by capital and related financing activities	<u>(132,290)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	25,000
Interest on investments	6,252
Net cash provided by investing activities	<u>31,252</u>
Net decrease in cash and cash equivalents	(56,670)
Cash and cash equivalents at beginning of year	<u>141,724</u>
Cash and cash equivalents at end of year	<u><u>\$ 85,054</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (293,759)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities	61,461
Depreciation	34,477
Decrease in inventories	1,923
(Increase) in other assets	(990)
Increase in accounts payable	1,660
Increase in salaries and benefits payable	2,358
Net cash used by operating activities	<u><u>\$ (192,870)</u></u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash and investments	\$ 120,054
Less items not meeting definition of cash equivalents:	
Certificates of deposit	(35,000)
Cash and cash equivalents at year end	<u><u>\$ 85,054</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2008, the District received federal commodities valued at \$61,461.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2008

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
<b>Assets</b>		
Cash and pooled investments	\$ 107,460	71,398
<b>Total assets</b>	<u>107,460</u>	<u>71,398</u>
<b>Net assets</b>		
Held in trust for scholarships and special projects	<u>107,460</u>	<u>71,398</u>
<b>Total net assets</b>	<u>\$ 107,460</u>	<u>71,398</u>

See notes to financial statements.



PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
Year Ended June 30, 2008

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Additions:		
Local sources:		
Contributions and donations	\$ 52,410	46,317
Interest	4,572	-
Total revenues	56,982	46,317
Deductions:		
Instruction:		
Services	-	530
Supplies	-	35,203
Property	-	500
Other	1,410	-
Total expenditures	1,410	36,233
Change in net assets	55,572	10,084
Net assets beginning of year	51,888	61,314
Net assets end of year	\$ 107,460	71,398

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**(1) Summary of Significant Accounting Policies**

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pella Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

**Governmental Fund Types:** Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund: The General Fund accounts for all sources used to finance District operation and maintenance, except those required to be accounted for in another fund.

Debt Service Fund: The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

Physical Plant and Equipment Levy (PPEL) Fund: This fund is authorized by Iowa Code 298.2 and accounts for transactions related to the improvement of facilities and grounds, construction of school houses, certain equipment expenditures and other expenditures authorized in Iowa Code 298.3.

**Proprietary Fund Types:** Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The following are the District's proprietary funds:

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following enterprise funds of the District are considered non-major:

Community Services: This fund accounts for child after school operations and for community-family service operations authorized by Iowa Code 298A.12 and 279.49.

Nutrition Services: This fund accounts for transactions related to the school lunch, breakfast and summer food programs authorized by Iowa Code 283A.

**Fiduciary Fund Types:** Fiduciary funds account for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities. The District has the following fiduciary fund types:

Private Purpose Trust Fund: These funds account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

Expendable Trust Fund: These funds account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year's property tax receivable.

Unearned revenue on the Statement of Net Assets consists of the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 830,750
Debt Service	Special Revenue:	
	Physical Plant and Equipment Levy	404,700
		<u>\$ 1,235,450</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.



PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

(4) **Capital Assets**

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,691,900	-	1,000	1,690,900
Construction in progress	10,817,147	23,215	10,817,147	23,215
Total capital assets not being depreciated	12,509,047	23,215	10,818,147	1,714,115
Capital assets being depreciated:				
Buildings	20,504,629	12,899,142	305,932	33,097,839
Improvements other than buildings	1,416,081	131,404	-	1,547,485
Furniture and equipment	9,804,395	1,141,603	324,904	10,621,094
Total capital assets being depreciated	31,725,105	14,172,149	630,836	45,266,418
Less accumulated depreciation for:				
Buildings	7,070,776	798,268	305,932	7,563,112
Improvements other than buildings	455,340	63,888	-	519,228
Furniture and equipment	7,606,122	372,531	324,904	7,653,749
Total accumulated depreciation	15,132,238	1,234,687	630,836	15,736,089
Total capital assets being depreciated, net	16,592,867	12,937,462	-	29,530,329
Governmental activities capital assets, net	\$ 29,101,914	12,960,677	10,818,147	31,244,444
<b>Business type activities:</b>				
Furniture and equipment	\$ 776,119	185,136	-	961,255
Less accumulated depreciation	642,206	34,477	-	676,683
Business type activities capital assets, net	\$ 133,913	150,659	-	284,572

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 576,808
Special education	64,426
Other	40,266

Support services:

Student support	9,010
Instructional staff	64,601
Administration	8,103
Operation and maintenance of plant	62,440
Transportation	210,391
Non-instructional programs	61,737

1,097,782

Unallocated

136,905

Total depreciation expense - governmental activities

\$ 1,234,687

Business type activities:

Food services	\$ 34,477
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PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 16,810,000	-	1,005,000	15,805,000	1,055,000
Revenue bonds	1,285,000	-	165,000	1,120,000	170,000
Early retirement	369,899	265,295	203,153	432,041	166,746
	<u>\$ 18,464,899</u>	<u>265,295</u>	<u>1,373,153</u>	<u>17,357,041</u>	<u>1,391,746</u>

General Obligation Bonds

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2009	5.30%	\$ 440,000	132,307	572,307
2010	5.38%	465,000	108,988	573,988
2011	5.38%	490,000	83,994	573,994
2012	5.38%	515,000	57,656	572,656
2013	5.50%	545,000	29,975	574,975
Subtotal		<u>2,455,000</u>	<u>412,920</u>	<u>2,867,920</u>

Bond Issue of June 1, 2005				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2009	3.50%	\$ 50,000	577,425	627,425
2010	4.00%	510,000	575,675	1,085,675
2011	4.00%	535,000	555,275	1,090,275
2012	4.00%	560,000	533,875	1,093,875
2013	4.00%	590,000	511,475	1,101,475
2014	4.00%	680,000	487,875	1,167,875
2015	4.00%	715,000	460,675	1,175,675
2016	4.00%	750,000	432,075	1,182,075
2017	4.50%	775,000	402,075	1,177,075
2018	4.50%	810,000	367,200	1,177,200
2019	4.50%	850,000	330,750	1,180,750
2020	5.00%	885,000	292,500	1,177,500
2021	5.00%	925,000	248,250	1,173,250
2022	5.00%	970,000	202,000	1,172,000
2023	5.00%	1,015,000	153,500	1,168,500
2024	5.00%	1,065,000	102,750	1,167,750
2025	4.50%	1,100,000	49,500	1,149,500
Subtotal		<u>12,785,000</u>	<u>6,282,875</u>	<u>19,067,875</u>

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

Refunding Bond Issue of November 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2009	4.90%	\$ 240,000	11,760	251,760
	Subtotal	240,000	11,760	251,760
Refunding Bond Issue of March 1, 1998				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2009	4.55%	\$ 325,000	14,787	339,787
	Subtotal	325,000	14,787	339,787
Total				
Year ending June 30,		Principal	Interest	Total
2009		\$ 1,055,000	736,279	1,791,279
2010		975,000	684,663	1,659,663
2011		1,025,000	639,269	1,664,269
2012		1,075,000	591,531	1,666,531
2013		1,135,000	541,450	1,676,450
2014		680,000	487,875	1,167,875
2015		715,000	460,675	1,175,675
2016		750,000	432,075	1,182,075
2017		775,000	402,075	1,177,075
2018		810,000	367,200	1,177,200
2019		850,000	330,750	1,180,750
2020		885,000	292,500	1,177,500
2021		925,000	248,250	1,173,250
2022		970,000	202,000	1,172,000
2023		1,015,000	153,500	1,168,500
2024		1,065,000	102,750	1,167,750
2025		1,100,000	49,500	1,149,500
Total		\$ 15,805,000	6,722,342	22,527,342

# PELLA COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS June 30, 2008

### Revenue Bonds

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness are as follows:

Year ending June 30,	Bond Issue of June 1, 1997			
	Interest Rates	Principal	Interest	Total
2009	3.50%	\$ 170,000	40,963	210,963
2010	3.60%	175,000	35,012	210,012
2011	3.60%	180,000	28,713	208,713
2012	3.60%	190,000	22,232	212,232
2013	3.75%	200,000	15,393	215,393
2014	3.85%	205,000	7,892	212,892
Total		\$ 1,120,000	150,205	1,270,205

The District has pledged future local option sales and services tax revenues to repay the \$1,750,000 bonds issued in June, 1997. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The total principal and interest remaining to be paid on the notes is \$1,270,205. For the current year, principal of \$165,000 and interest of \$46,325 was paid on the bonds. Total local option sales and services tax revenues were \$1,306,180.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$175,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

### **(6) Termination Benefits**

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Early retirement benefits are paid monthly over the number of months until the employee turns 65. If the retiree is of an age that these monthly payments would exceed 36 months, the retiree may request payment over 36 months.

At June 30, 2008, the District has obligations to 24 participants with a total liability of \$432,041. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$203,153.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members were required to contribute 3.70% of their annual salary and the District was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$695,806, \$598,773, and \$567,684, respectively, equal to the required contributions for each year.

**(8) Risk Management**

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$732,846 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

**(10) Construction Commitment**

The District is in a remodeling project of Lincoln Elementary with projected total cost of \$50,000. As of June 30, 2008 costs of \$23,215 had been incurred. The balance of \$26,785 remaining at June 30, 2008 will be paid as work progresses.

Project	Projected Cost	Costs Incurred
Lincoln Elementary Remodel	\$ 50,000	23,215
	<u>\$ 50,000</u>	<u>23,215</u>

### **Required Supplementary Information**

PELLA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 10,299,263	726,826	11,026,089	10,977,438	10,977,438	48,651
Intermediate sources	18,785	-	18,785	18,000	18,000	785
State sources	10,318,253	10,363	10,328,616	10,192,961	10,192,961	135,655
Federal sources	477,670	253,593	731,263	524,000	524,000	207,263
Total revenues	21,113,971	990,782	22,104,753	21,712,399	21,712,399	392,354
Expenditures:						
Instruction	11,821,929	-	11,821,929	11,602,000	12,200,000	378,071
Support services	5,734,715	-	5,734,715	5,819,200	5,950,000	215,285
Noninstructional programs	-	979,196	979,196	937,136	1,150,000	170,804
Other expenditures	5,585,810	-	5,585,810	5,375,484	6,300,000	714,190
Total expenditures	23,142,454	979,196	24,121,650	23,733,820	25,600,000	1,478,350
Excess (deficiency) of revenues over (under) expenditures	(2,028,483)	11,586	(2,016,897)	(2,021,421)	(3,887,601)	1,870,704
Other financing sources, net	407,978	52,847	460,825	406,700	406,700	54,125
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,620,505)	64,433	(1,556,072)	(1,614,721)	(3,480,901)	1,924,829
Balances beginning of year	5,747,393	349,263	6,096,656	5,685,428	5,685,428	411,228
Balances end of year	\$ 4,126,888	413,696	4,540,584	4,070,707	2,204,527	2,336,057

See accompanying independent auditor's report.



PELLA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures did not exceed the amounts budgeted.

## **Other Supplementary Information**

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR SPECIAL REVENUE FUNDS  
June 30, 2008

	Management	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 307,299	152,063	394,302	853,664
Receivables:				
Property tax:				
Current year delinquent	3,039	-	5,143	8,182
Succeeding year	475,000	-	610,181	1,085,181
Due from other governments	7	-	8	15
<b>Total assets</b>	<b>\$ 785,345</b>	<b>152,063</b>	<b>1,009,634</b>	<b>1,947,042</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ 167	649	66,806	67,622
Salaries and benefits payable	-	684	-	684
Early retirement	166,746	-	-	166,746
Deferred revenue:				
Succeeding year property tax	475,000	-	610,181	1,085,181
Total liabilities	641,913	1,333	676,987	1,320,233
Fund balances:				
Unreserved, undesignated	143,432	150,730	332,647	626,809
Total fund balances	143,432	150,730	332,647	626,809
<b>Total liabilities and fund equity</b>	<b>\$ 785,345</b>	<b>152,063</b>	<b>1,009,634</b>	<b>1,947,042</b>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2008

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 419,101	-	543,912	963,013
Utility tax replacement excise tax	5,852	-	6,582	12,434
Mobile home tax	401	-	451	852
	425,354	-	550,945	976,299
Other local sources:				
Interest on investments	-	6,682	1,340	8,022
Student activities	-	489,824	-	489,824
Contributions and donations	-	34,820	-	34,820
Other	34,921	26,549	6,996	68,466
	34,921	557,875	8,336	601,132
	460,275	557,875	559,281	1,577,431
State sources:				
Revenue in lieu of taxes - military credit	198	-	227	425
Total revenues	460,473	557,875	559,508	1,577,856
Expenditures:				
Instruction:				
Regular instruction:				
Salaries	154,896	-	-	154,896
Benefits	75,514	-	-	75,514
	230,410	-	-	230,410
Co-curricular instruction:				
Salaries	-	8,759	-	8,759
Benefits	-	692	-	692
Services	-	244,192	-	244,192
Supplies	-	269,149	-	269,149
Property	-	23,829	-	23,829
Other	-	5,079	-	5,079
	-	551,700	-	551,700
Total instruction	230,410	551,700	-	782,110
Support Services:				
Student support services:				
Benefits	1,775	-	-	1,775
Instructional staff support services:				
Benefits	1,065	-	-	1,065

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2008

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Support Services (continued):				
General administration:				
Benefits	355	-	-	355
Services	1,745	-	-	1,745
	2,100	-	-	2,100
Building administration:				
Benefits	2,130	-	-	2,130
Business administration:				
Benefits	355	-	-	355
Administration technology services:				
Services	-	-	37,869	37,869
Supplies	-	-	50,932	50,932
Property	-	-	79,025	79,025
	-	-	167,826	167,826
Plant operation and maintenance:				
Benefits	65,988	-	-	65,988
Services	93,464	-	-	93,464
Property	-	-	11,271	11,271
	159,452	-	11,271	170,723
Student transportation:				
Benefits	25,143	-	-	25,143
Services	29,490	-	-	29,490
	54,633	-	-	54,633
Total support services	221,510	-	179,097	400,607
Other expenditures:				
Facilities acquisition and construction:				
Services	-	-	291,944	291,944
Other	-	-	674	674
	-	-	292,618	292,618
Total expenditures	451,920	551,700	471,715	1,475,335

## Schedule 2

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2008

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Excess of revenues over expenditures	8,553	6,175	87,793	102,521
Other financing sources (uses):				
Operating transfers out	-	-	(404,700)	(404,700)
Sale of capital assets	-	-	404,700	404,700
Total other financing sources (uses)	-	-	-	-
Excess of revenues and other financing sources over expenditures and other financing uses	8,553	6,175	87,793	102,521
Fund balances beginning of year	134,879	144,555	244,854	524,288
Fund balances end of year	\$ 143,432	150,730	332,647	626,809

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2008

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 9,434	110,620	120,054
Due from other governments	-	394	394
Inventories	-	21,166	21,166
Prepaid expense	-	5,420	5,420
Total current assets	9,434	137,600	147,034
Noncurrent assets:			
Property and equipment:			
Machinery and equipment	-	961,255	961,255
Accumulated depreciation	-	(676,683)	(676,683)
Total noncurrent assets	-	284,572	284,572
<b>Total assets</b>	<b>\$ 9,434</b>	<b>422,172</b>	<b>431,606</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ -	1,660	1,660
Salaries and benefits payable	-	16,250	16,250
Total current liabilities	-	17,910	17,910
<b>Total liabilities</b>	-	17,910	17,910
<b>Net Assets</b>			
Invested in capital assets, net of related debt	-	284,572	284,572
Unrestricted	9,434	119,690	129,124
<b>Total net assets</b>	9,434	404,262	413,696
<b>Total liabilities and net assets</b>	<b>\$ 9,434</b>	<b>422,172</b>	<b>431,606</b>

See accompanying independent auditor's report.

## Schedule 4

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2008

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Operating revenues:			
Local sources:			
Other local sources:			
Community service tuition and fees	\$ 26,767	-	26,767
Sale of lunches and breakfasts	-	654,996	654,996
Other service revenue	-	3,674	3,674
Total operating revenues	26,767	658,670	685,437
Operating expenses:			
Non-instructional programs:			
Community service operations:			
Salaries	30,280	-	30,280
Benefits	4,374	-	4,374
Services	1,230	-	1,230
Supplies	20,094	-	20,094
	55,978	-	55,978
Food services operations:			
Salaries	-	336,125	336,125
Benefits	-	97,393	97,393
Services	-	14,157	14,157
Supplies	-	440,903	440,903
Other	-	163	163
Depreciation	-	34,477	34,477
	-	923,218	923,218
Total operating expenses	55,978	923,218	979,196
Operating loss	(29,211)	(264,548)	(293,759)
Non-operating revenues:			
Interest income	67	6,186	6,253
Operating grants and donations	34,743	393	35,136
State lunch and breakfast program claims	-	10,363	10,363
National School Lunch Program	-	175,283	175,283
School Breakfast Program	-	16,849	16,849
Food distribution	-	61,461	61,461
Total non-operating revenues	34,810	270,535	305,345
Income before capital contributions	5,599	5,987	11,586
Capital contributions	-	52,847	52,847
Change in net assets	5,599	58,834	64,433
Net assets beginning of year	3,835	345,428	349,263
Net assets end of year	\$ 9,434	404,262	413,696

See accompanying independent auditor's report.



PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2008

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ -	658,670	658,670
Cash received from service tuition, fees and other sources	26,767	-	26,767
Cash payments to employees for services	(34,654)	(431,160)	(465,814)
Cash payments to suppliers for goods or services	(21,324)	(391,169)	(412,493)
Net cash used by operating activities	(29,211)	(163,659)	(192,870)
Cash flows from non-capital financing activities:			
Operating grants and contributions	34,743	-	34,743
State grants received	-	10,363	10,363
Federal grants received	-	192,132	192,132
Net cash provided by operating activities	34,743	202,495	237,238
Cash flows from capital and related financing activities:			
Capital grants and contributions received	-	52,847	52,847
Acquisition of capital assets	-	(185,137)	(185,137)
Net cash used by capital and related financing activities	-	(132,290)	(132,290)
Cash flows from investing activities:			
Proceeds from sale of investments	-	25,000	25,000
Interest on investments	67	6,185	6,252
Net cash provided by investing activities	67	31,185	31,252
Net increase (decrease) in cash and cash equivalents	5,599	(62,269)	(56,670)
Cash and cash equivalents at beginning of year	3,835	137,889	141,724
Cash and cash equivalents at end of year	\$ 9,434	75,620	85,054
<b>Reconciliation of operating loss to net cash used by operating activities:</b>			
Operating loss	\$ (29,211)	(264,548)	(293,759)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities	-	61,461	61,461
Depreciation	-	34,477	34,477
Decrease in inventories	-	1,923	1,923
(Increase) in prepaid expense	-	(990)	(990)
Increase in accounts payable	-	1,660	1,660
Increase in salaries and benefits payable	-	2,358	2,358
Net cash used by operating activities	\$ (29,211)	(163,659)	(192,870)

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2008

Non-major Enterprise Funds		
Community Services	Nutrition Services	Total
\$ 9,434	110,620	120,054
	(35,000)	(35,000)
\$ 9,434	75,620	85,054

**Reconciliation of cash and cash equivalents at  
 year end to specific assets included on Combined  
 Balance Sheet:**

Current assets:

Cash and investments

\$ 9,434 110,620 120,054

Less items not meeting definition of cash equivalents:

Certificates of deposit

- (35,000) (35,000)

Cash and cash equivalents at year end

\$ 9,434 75,620 85,054

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2008, the District received federal commodities valued at \$61,461.

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS  
Year ended June 30, 2008

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Booster/PTO Concessions	\$ 2,915	165	50,365	52,946	499
HS Drama	115	242	773	1,130	-
HS Speech	1,091	100	864	1,871	184
HS Debate	16	106	-	122	-
HS Vocal	1,245	400	24,627	17,980	8,292
HS Instr. Music	5,772	4,336	4,283	6,833	7,559
HS Instr. Music Fundraiser	22,672	300	1,135	20,100	4,007
Orchestra Trip Account	-	-	-	2,000	(2,000)
Orchestra	821	100	351	1,103	169
Vocal Music Trip Account	4,537	300	34,530	36,053	3,314
Band Boosters	(1,899)	-	12,088	5,204	4,984
Athletics	(7,788)	14,949	614	10,068	(2,293)
HS Boys Bask.	-	(7,852)	18,261	10,409	-
HS Football	-	(8,917)	44,125	35,208	-
HS Football Jerseys	6,461	-	7,443	12,430	1,474
Football Parents	1,358	-	9,651	10,680	329
HS Boys Soccer	-	(439)	10,045	9,606	-
HS Baseball	150	2,672	2,376	5,080	118
HS Track	-	366	3,186	3,552	-
HS Boys Cross Country	-	621	2,969	3,590	-
HS Boys Tennis	17	658	290	948	17
HS Boys Golf	-	1,872	102	1,974	-
Tennis Club	186	76	-	262	-
HS Wrestling	-	1,115	3,996	5,111	-
Wrestling Club	2,067	-	1,190	813	2,444
HS Girls Basketball	-	(4,465)	18,273	13,808	-
Girls Basketball Club	635	-	3,412	3,898	149
HS Volleyball	-	(1,275)	8,531	7,256	-
Volleyball Club	713	(263)	3,587	4,037	-
HS Girls Soccer	-	(196)	4,725	4,529	-
HS Softball	510	4,477	2,092	6,569	510
HS Girls Track	-	1,847	3,910	5,757	-
HS Girls Cross Country	-	665	1,787	2,452	-
HS Girls Tennis	-	243	2,032	2,275	-
HS Girls Golf	-	2,117	70	2,187	-
HS Activity Tickets	-	(18,013)	18,013	-	-
HS Miscellaneous Activity	292	(396)	3,582	-	3,478
Girls Soccer Club	564	735	5,522	5,376	1,445
Girls Track Club	5,066	(7,182)	5,764	3,140	508
Boys Soccer Club	2,899	400	8,305	7,772	3,832
Boys Golf Club	42	-	1,330	1,365	7
Swimming Club	-	-	1,125	750	375
Pella Connection Club	2,883	(200)	467	100	3,050

PELLA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS  
 Year ended June 30, 2008

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
HS Cheerleaders	5,851	300	16,696	16,987	5,861
HS Vending	1,405	1,617	10,673	12,865	830
HS Testing	2,790	-	4,179	3,810	3,159
Class of 2007	1,031	(957)	-	-	74
Class of 2008	749	957	-	1,706	-
Class of 2009	2,380	-	2,059	4,397	42
Class of 2010	2,385	-	996	-	3,381
Class of 2011	-	-	1,647	-	1,647
Softball Concessions	3,459	-	4,841	3,940	4,360
Baseball Concessions	(2,003)	-	2,854	577	274
Boys Basketball Concessions	2,417	135	9,697	9,370	2,879
Girls Golf Concessions	61	-	-	-	61
Drill Team	1,273	300	29,866	29,892	1,548
FFA	6,173	300	30,552	29,633	7,392
FHA	264	-	2,416	-	2,680
Humanities	645	-	-	-	645
Interest	67	(5,000)	6,682	156	1,593
Technology Student Association	7,069	300	6,691	5,042	9,018
National Honor Society	318	100	-	-	418
Pep Club	406	-	-	-	406
HS PE Heart Club	1,730	700	1,963	3,524	869
French Club	1,571	-	-	-	1,571
HS Student Council	228	800	2,157	2,566	619
Publications	34,598	700	44,229	39,390	40,137
Craft Show-Yearbook	2,348	-	-	1,149	1,199
HS Weight Club	1,271	-	496	136	1,631
MS Vocal Music	1,203	150	1,867	1,198	2,022
MS Instr. Music	1,346	150	1,000	1,200	1,296
MS Athletics	-	5,136	-	5,136	-
MS Boys Basketball	-	(439)	1,626	1,187	-
MS Football	-	3,108	2,043	5,151	-
MS Boys Track	-	405	180	585	-
MS Wrestling	1	1,644	226	1,871	-
MS Girls Basketball	-	(371)	1,471	1,100	-
MS Volleyball	-	(639)	1,754	1,115	-
MS Softball	160	2,605	45	2,650	160
MS Girls Track	-	(64)	1,193	1,129	-
MS Activity Tickets	-	(1,601)	1,601	-	-
MS Cheerleaders	-	-	3,260	1,888	1,372
MS Library/Book Fair	229	-	-	82	147
MS History Day Club	21	-	-	-	21
MS Gifted and Talented	394	-	271	-	665
MS Activity	2,763	-	9,600	8,908	3,454
MS Home Ec Resale	2,227	-	4,044	3,755	2,515
MS Language Arts Resale	267	-	-	-	267
MS Social Studies Resale	153	-	984	833	304

PELLA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS  
 Year ended June 30, 2008

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
MS AR Store	69	-	-	-	69
MS Student Council	2,151	-	955	908	2,198
Elem. Activity	-	-	-	-	-
Elem. PTO	30	-	50	-	80
Lincoln Elementary	369	-	4,856	4,879	346
Madison Elementary	-	-	7,151	6,843	308
Jefferson Elementary	651	(30)	9,194	9,051	763
Jefferson Recycling	695	30	22	747	-
Totals	\$ 144,555	-	557,875	551,700	150,730

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	2008	2007	2006	2005	2004	2003	2002
Revenues:							
Local sources:							
Local tax	\$ 8,759,431	8,331,502	8,227,665	7,744,098	7,073,282	6,725,009	6,600,191
Tuition	498,004	623,795	592,952	601,419	489,605	201,329	216,030
Other	1,041,828	1,358,267	1,501,637	755,499	672,917	1,207,656	996,648
Intermediate sources	18,785	37,523	18,082	15,000	15,000	18,428	15,309
State sources	10,318,253	9,168,676	8,531,765	7,999,448	7,781,624	7,426,618	7,481,658
Federal sources	477,670	424,983	521,521	430,845	446,378	344,089	263,894
Total	<u>\$ 21,113,971</u>	<u>19,944,746</u>	<u>19,393,622</u>	<u>17,546,309</u>	<u>16,478,806</u>	<u>15,923,129</u>	<u>15,573,730</u>
Expenditures:							
Instruction:							
Regular instruction	\$ 7,476,168	6,830,022	6,329,880	6,275,810	6,321,718	6,025,245	6,176,546
Special instruction	2,344,069	2,028,208	1,781,523	2,183,808	2,062,595	1,859,024	1,706,911
Other instruction	2,001,692	1,961,808	1,922,355	1,207,063	1,285,721	1,483,823	1,279,078
Support services:							
Student services	386,123	302,002	306,129	325,470	499,204	484,767	444,537
Instructional staff services	753,039	762,889	809,570	794,337	677,684	628,426	624,769
Administration services	1,634,630	1,462,779	1,643,583	1,284,737	1,136,764	1,103,990	1,041,328
Operation and maintenance of plant services	1,847,350	1,706,062	1,675,658	1,489,740	1,639,083	1,383,316	1,284,975
Transportation services	1,113,573	1,130,895	1,028,477	693,693	699,316	553,744	603,798
Non-instructional programs	-	-	-	296	16,086	11,350	7,467
Other expenditures:							
Facilities acquisition	2,849,534	9,094,847	4,020,376	1,760,941	597,119	361,383	354,533
Long-term debt:							
Principal	1,170,000	1,115,000	1,070,000	995,000	805,000	770,000	935,000
Interest and other charges	833,430	891,941	931,550	386,050	368,831	403,278	450,694
AEA flowthrough	732,846	660,488	610,764	586,232	592,881	604,874	608,706
Total	<u>\$ 23,142,454</u>	<u>27,946,941</u>	<u>22,129,865</u>	<u>17,983,177</u>	<u>16,702,002</u>	<u>15,673,220</u>	<u>15,518,342</u>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2008

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY 08	<u>\$ 61,461</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 08	16,849
National School Lunch Program	10.555	FY 08	<u>175,283</u>
			<u>192,132</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 08	<u>215,695</u>
Services for Children with Deaf-Blindness	84.025	FY 08	<u>-</u>
Vocational Education - Basic Grants to States	84.048	FY 08	<u>35,874</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 08	<u>5,790</u>
State Grants for Innovative Programs	84.298	FY 08	<u>3,531</u>
Improving Teacher Quality State Grants	84.367	FY 08	<u>67,854</u>
Grants for State Assessments and Related Activities	84.369	FY 08	<u>15,553</u>
Area Education Agency (AEA 11):			
Special Education - Grants to States	84.027	FY 08	<u>124,328</u>
Total			<u><u>\$ 722,218</u></u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Pella Community School District**



**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pella Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects Pella Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Pella Community School District's financial statements that is more than inconsequential will not be prevented or detected by Pella Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Pella Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pella Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 31, 2008

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Pella Community School District:

Compliance

We have audited the compliance of Pella Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pella Community School District's management. Our responsibility is to express an opinion on Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

Pella Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 31, 2008

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

**Part I: Summary of the Independent Auditor's Results**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
  - Clustered programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pella Community School District did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES**

II-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, expenditures are recorded and checks are prepared by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2008

**Part III: Findings and Questioned Costs for Federal Awards**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES**

**All programs displayed on the Schedule of Expenditures of Federal Awards:**

III-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

**Part IV: Other Findings Related to Required Statutory Reporting**

IV-A-08 Certified Budget - Expenditures for the year ended June 30, 2008 did not exceed the certified budget amounts as amended.

IV-B-08 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-08 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-08 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2008

- IV-H-08 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.